

A Quick and Easy TAX GUIDE FOR MSMEs

A Project of:

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REGISTRATION

1. What is an MSME?

An MSME refers to any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets amount to:

- Not more than P3,000,000 for **Micro**;
- P3,000,001 to P15,000,000 for **Small**; and
- P15,000,001 to P100,000,000 for **Medium**.

Any business entity or enterprise whose total assets shall not be more than P3,000,000 are considered *Barangay Micro Business Enterprise* (BMBE) entitled to certain incentives such as: exemption from income tax and from the coverage of the Minimum Wage Law, access to finance, training and technology.

2. As an owner of an MSME, do I need to register my business?

YES

3. Where do I register?

- i. For Sole Proprietorship – register with the Department of Trade and Industry (DTI);
- ii. For Partnership/Corporation – register with the Securities and Exchange Commission; and
- iii. For Cooperative – register with the Cooperative Development Authority (CDA).
- iv. In addition, for those applying as BMBE, apply for BMBE Certification with the DTI through the Negosyo Centers.

4. Do I need to get any license?

YES. You need to apply for a business permit and license from the local government unit (LGU). You can also go to a Negosyo Center in your locality and ask for assistance. The Negosyo Center can facilitate access to government services for MSMEs.

“Negosyo Centers”

Under RA No. 10644, a “Negosyo Center” must be established in all provinces, cities and municipalities. It shall be responsible for “promoting ease of doing business and facilitating access to services for MSMEs within its jurisdiction.”

5. Do I need to register with the BIR?

Yes.

6. When do I register with the BIR?

Registration must be made either: 1) on or before the commencement of business; or 2) before payment of any tax due; or 3) upon filing of a tax return.

For BMBEs, they should also register with DTI as a BMBE to be able to avail of incentives.

7. How do I register with the BIR

Accomplish the Application for Registration or BIR Form 1901, then proceed to the BIR Revenue District Office (RDO) that has jurisdiction over the place of your business or the place of your residence.

8. Do I need to pay anything upon registration??

YES. Pay the registration fee of P500.00.

Then, secure from the BIR the Certificate of Registration (COR or BIR Form No. 2303) and the “Ask for a Receipt” Notice (ARN).

9. What will I do with the Certificate of Registration (COR) and the ‘Ask for Receipt’ Notice (ARN)?

You display it at your place of business in a place that can be easily seen.

10. Do I need to do anything else after registration?

Yes. *You need to do the following:*

1. Print your receipts – *You should apply with the BIR office where you registered for an authority to print receipts. Thereafter, proceed to a BIR accredited printer for the printing of the official receipts.*

2. Register your books of accounts – You register your books of accounts with the BIR Office where you registered. You can choose to register a manual, loose-leaf or computerized books of accounts.

Small companies normally use manual books of accounts while medium-sized normally use either loose-leaf or computerized.

3. File your tax returns and pay your taxes *on due dates required by law. (See Question No. 32)*

BOOKKEEPING

11. What are the required “Books of accounts?”

The REQUIRED books of accounts include journals, ledgers, cash receipts books, and cash disbursement books, subsidiary sales journals and subsidiary purchase journals.

12. Do the BIR require MSME to observe the BIR’s bookkeeping requirements?

Yes. In addition to books of accounts, you should keep also the supporting documents and other relevant records such as copies of Official Receipts and Invoices.

13. What will I do with the books of accounts?

All transactions of the business must be recorded in the books of accounts. It must also show the results of operations from which all taxes due the Government may be readily and accurately ascertained and determined at any time of the year.

14. Do I need a certified public accountant (CPA) to audit my books of accounts?

Generally, if the gross annual sales or receipts do not exceed P3,000,000, the books of accounts need not be audited by a CPA¹.

¹ Section 232 of the NIRC

However, under SEC Rule No. 68, as amended, financial statements to be submitted to the SEC must have an attached auditor's report from an independent CPA accredited by both the SEC and the Board of Accountancy (BOA). As such, MSMEs registered with the SEC require the services of a CPA with SEC and BOA accreditation regardless of the amount of gross quarterly sales, earnings, receipts, or output.

15. How long do I keep these books?

You are required to preserve the books of accounts, including subsidiary books and other accounting records, for a period of ten (10) years².

Hard copies must be retained for the first five years while only electronic copies of the hard copies are required thereafter³.

SALES INVOICES AND OFFICIAL RECEIPTS

16. Am I required to issue a Sales Invoice (SI) or Official Receipts (OR)?

Yes, if your sale is P100 or more.

17. When do I issue an OR or SI? Am I required to issue both?

You are required to issue an SI if you are selling goods or properties, and an OR if you are selling a service. You are not required to issue both documents.

FILING AND PAYMENT OF TAXES

18. What taxes should I pay?

As an MSME, you are liable to pay the following taxes to the BIR office where you are registered:

1. An annual registration fee;
2. Quarterly and adjusted annual Income Tax;
3. VAT or percentage tax; and
4. Withholding taxes

² R.R. No. 17-2013

³ R.R. No. 5-2014

19. How much and when do I pay the *Annual Registration Fee*?

The annual registration fee amounting to P500 is required to be paid on or before January 31 of each year using BIR Form 0605.

20. *What is an Income Tax*?

Income tax is a tax imposed on your earnings during the year.

21. How will I compute my income tax?

The computation of your income tax will depend on whether your business is incorporated or not. If not incorporated, you are considered a sole proprietor and will be subject to tax as self-employed or professional. If incorporated, you will pay the tax imposed on corporations.

22. If I am a sole proprietor, how do I compute my income tax?

If you are a sole proprietor and your annual gross sales or receipts do not exceed 3 Million, you can choose to pay either of the following:

1. 8% of gross sales or gross receipts in excess of P250,000; or
2. The graduated income tax rate (see Table 1)

If your annual gross sales or receipts exceed 3 Million, your income tax shall be computed using the table below.

Table 1.

Not over P250,000	0%
Over P250,000 but not over P400,000	20% of the excess over P250,000
Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000
Over P800,000 but not over P2,000,000	P130,000 + 30% of the excess over P800,000
Over P2,000,000 but not over P8,000,000	P490,000 + 32% of the excess over P2,000,000
Over P8,000,000	P2,410,000 + 35% of the excess over P8,000,000

Below is a sample computation of income tax of an MSME:

Assume that an MSME had the following financial data for the year 2018:

- Gross receipts – P1,000,000;
- Operating expenses – P400,000

Sole Proprietor (self-employed or professionals)

If the MSME is a sole proprietor, he can opt to pay an 8% of his gross annual sales or receipts or he can pay using the graduated rates using Table 1.

If he opts for the 8%, his tax shall be computed as follows:

8% Gross Income Tax

Gross receipts	P 1,000,000
Less: Exempt Income	250,000
<hr/>	
Taxable Income	P 750,000

Tax Due:

**8% of the excess over
P250,000** **P 60,000**

If he opts for the graduated income tax, his tax shall be computed as follows:

Gross receipts	P 1,000,000
Less: Operating Expenses*	400,000
<hr/>	
Taxable Income	P 600,000

Tax Due:

**P30,000 + 25% of the
excess over P400,000** **P 80,000**
(using Table 1)

23. If corporation or a partnership, how will I compute my income tax?

The income of corporations and partnerships is subject to an income tax of 30%.

Sample computation:

Gross receipts	P1,000,000
Less: Operating Expenses*	400,000
<hr/> Taxable Income	<hr/> P 600,000

Tax Due:
30% of P600,000 **P 180,000**

24. What about if I was not able to keep the supporting documents for my expenses, can I still deduct them?

No. To be able to deduct your expenses, you should be able to present proofs such as receipts and invoices.

However, if you are unable to keep all supporting documents, you can opt to use the Optional Standard Deduction (OSD).

25. What is an optional Standard Deduction (OSD)?

The OSD is an alternative method of claiming deduction instead of an itemized deduction. It is a standard amount that can be deducted without the need to show proof.

26. How do I compute OSD?

If sole proprietor, it is 40% of gross sales or receipts. In computing gross sales or receipts, no deduction for direct costs and expenses shall be allowed.

If corporation, it is 40% of gross income. Gross income is computed as gross sales/receipts less direct costs.

VAT/PERCENTAGE TAX

27. What is a Value Added Tax (VAT)? How about a Percentage Tax?

The VAT and Percentage Tax are business taxes. VAT is imposed on almost all sales of goods and services, with few exceptions. A percentage tax, on the other hand, is paid if gross sale or revenue is below the VAT threshold of 3 Million.

28. If my annual gross sale does not exceed 3 Million, what tax and how much will I pay?

If your annual gross sales/receipts do not exceed 3 Million, you are not subject to VAT. However, you are subject to a 3% percentage tax.

But if you choose to pay the 8% gross income tax instead of the graduated income tax (see Question No. 23), you will not pay VAT or the 3% percentage tax. This is because, the 8% income tax you paid already covers income tax, percentage tax or VAT

Sample Computation:

Using the same example in Question No. 22, since the annual gross sales or receipts do not exceed P3,000,000 pesos, the tax to be imposed shall be the 3% percentage tax computed as follows:

Gross receipts	P1,000,000
Tax Due: 3% of the gross receipts	P 30,000

However, if you are a sole proprietor and you opted to pay the 8% gross income tax, you will not pay the 3% percentage tax or VAT.

WITHHOLDING TAXES

29. What are withholding taxes?

Withholding taxes are the tax due from your suppliers but are required to be withheld before releasing payment to your suppliers. The BIR may require you to withhold a tax on your payment to your employees or suppliers, and remit the same to the BIR.

The tax withheld from the compensation of your employees is called a withholding tax on compensation. The tax withheld from your suppliers is called a creditable or a final withholding tax.

FILING OF RETURN AND PAYMENT OF TAX

30. Where can I file my tax returns and pay my taxes?

You can file your tax return and pay the tax with any Authorized Agent Bank (AAB) within the jurisdiction of the BIR Office where you are registered.

31. When do I pay my taxes? What are the tax forms to be used?

The following are the deadlines for filing and payment:

1. Annual Registration Fee

BIR Form	Period Covered	Deadline
Form 0605	Annual	On or before January 31 of every year

2. Income Tax — for individuals

BIR Form	Period Covered	Deadline
1701Q	1 st Quarter	May 15
1701Q	2 nd Quarter	August 15
1701Q	3 rd Quarter	November 15
1701	Annual	April 15 of the following year

3. Income Tax — for corporate

BIR Form	Period Covered (Calendar Year)	Deadline
1702Q	1 st Quarter	May 30
1702Q	2 nd Quarter	August 29
1702Q	3 rd Quarter	November 29
1702	Annual	April 15 of the ff. year

4. Value Added Tax

BIR Form	Period Covered	Deadline
2550M	Monthly	20th day of succeeding taxable month (staggered filing for EFPS taxpayers)
2550Q	Quarterly	25th day of the month following the close of each taxable quarter

5. Percentage Tax

BIR Form	Period Covered	Deadline
2551Q	Quarterly	25th day of the month following the close of each taxable quarter

6. Remittance Return of Income Taxes Withheld

BIR Form	Period Covered	Deadline
Monthly Remittance of Expanded Withholding Tax	Monthly (for the 1 st 2 months of the quarter)	On or before the 10 th day following the close of the month (EFPS filers on staggered basis)
Expanded Withholding Tax (1601EQ)	Quarterly	Last day of the month following the quarter during which the withholding was made
Withholding	Monthly	10th day of

BIR Form	Period Covered	Deadline
Tax on compensation (1601C)		the succeeding taxable month (staggered filing for EFPS taxpayers)

32. Can I file and pay taxes electronically?

Yes. You can file and pay your taxes through the Electronic Filing and Payment System (eFPS) of the BIR.

“eFPS” is a system developed and maintained by the (BIR) for electronically filing tax returns, including attachments, if any, and paying taxes due thereon, specifically through the internet.

33. What are the requirements for eFPS?

- a. Register with the BIR-Integrated Tax System;
- b. Submit a Certification from the President of the corporation authorizing two (2) officers to file return and to enroll for availment of the eFPS, as well as a Letter of Intent to avail of eFPS;
- c. Enroll in eFPS; and
- d. Enroll with any eFPS-Authorized Agent Bank (eFPS-AAB) for use of their e-payment system.

34. What are the steps in enrolling to eFPS?

- a. Access BIR website at www.bir.gov.ph, using your internet browser.
- b. Click on eFPS icon to go the eFPS home page.
- c. From the eFPS Login page, click on 'Enroll to eFPS' link.
- d. The eFPS enrollment form appears. Complete the required fields on the Enrollment Form page. Then, click on the "Submit" button.

eFPS will inform you thru a pop-up message that your enrollment has been successfully received. Then you have to wait for an email message from BIR informing you of the status of your enrollment whether approved or disapproved. Once your account has been activated, you are ready to e-file and e-pay, and perform all the functions within eFPS.

It is important for you to remember your username and password, as well as the correct answer to the challenge question. Keep your username, password and challenge question answer to yourself. Do not make it easy to guess, nor write it down.

PENALTIES

35. Are there penalties if I fail to file and pay my taxes on time?

Yes. If you fail to file and pay your taxes on time, you will be required to pay an additional tax (a surcharge) equivalent to twenty-five percent (25%) or fifty percent (50%) of the amount of tax due. In addition, an interest of 12% per annum is imposed from the date you are required to pay until the amount is fully paid.

In case of failure to issue receipt or sales or commercial invoices, the taxpayer, upon conviction shall be punished by a fine of not less than P1,000 but not more than P50,000 and suffer imprisonment of not less than 2 years but not more than 4 years for each act or omission.

36. Whom shall I reach if I need assistance?

You may seek assistance from the BIR office where you are registered or with the local Negosyo Center nearest your locality.

The list of established Negosyo Centers can be accessed via this link: <https://dti.gov.ph/programs-projects/negosyo-center>

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